



House Ways & Means Committee

Tax Reform and Charitable Contributions

Room 1100, Longworth House Office Building

Thursday, February 14, 2013

In general, Americans make charitable contributions, not for a tax deduction, but for the satisfaction of helping others who need a hand-up. The income tax system limits individual charitable deductions to <50% of adjusted gross income, and 10% for corporations. However, for various reasons, only about 30% of eligible tax filers itemize their deductions, mostly for being low income earners.

Since the FairTax eliminates all forms of income and payroll taxes, all new goods and services are purchased with “pre-tax” dollars. Charitable contributions are not taxable, are paid with pre-tax dollars, increases the contributor base and for the first time since 1986, the vast majority are actually encouraged to make charitable contributions. Further, wage earners receive their whole paycheck allowing for more families to afford a higher percentage of their income for charity. The result is a larger amount of pre-tax dollars being available for charitable contributions under the FairTax.

The attached conclusion is taken from a study done by the Beacon Hill Institute. It is a view of the expected health of charitable contributions under the FairTax. The URL address for the full report is also given since this submittal is page limited. Please use the whole report to support this submittal.

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From: The FairTax and Charitable Giving

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February 2007

For the complete report, please go to:

<http://www.beaconhill.org/FairTax2007/FTaxCharitableGivingBHI4-24-07.pdf>

This report, done in 2007, reflects the result of implementing the FairTax and repealing the income tax. It needs to be updated using more recent data. However, there is no reason to believe the trends in the report would differ very much as discussed in the conclusion below.

VIII. Conclusions

Charitable giving is an important part of American society, enabling charitable organizations to play their essential role in providing goods and services to members of society who most need help. Individuals practice charitable giving in part because of culture – i.e., a “warm glow” associated with charitable giving or out of a sense of religious duty. But incentives also play a role. Many who donate to charity currently reap another, more tangible, benefit under our current tax system: a tax deduction for charitable giving.

Concerns about the effects on charitable giving of a major systemic change, such as the FairTax, are understandable. Because it would eliminate the current income tax and the associated tax deduction for charitable giving, the FairTax draws the apprehension of the nonprofit sector. Charitable organizations are worried that, if fully implemented, the FairTax would erode their base of financial support. Supporters of the current incentive system also believe a FairTax scenario, in turn, would threaten the viability of recipients.

As outlined in this paper, BHI’s research and analysis prove these fears to be unfounded. To be sure, the FairTax would cause charitable giving by those in the very highest marginal tax brackets to decrease as the tax incentives for this income group became less valuable and as the price of giving increased. However, this shortfall in charitable giving by the wealthy would be more than offset by an increase in charitable giving by other taxpayers. Under the FairTax, the majority of taxpayers (who currently do not itemize or fall into the lower tax brackets) would see the price of giving decrease. The decrease in the price of giving would provide an attractive



incentive for the majority of taxpayers to increase their charitable giving under the FairTax. It is important to note that while *total* charitable giving will increase under the FairTax, this increase in giving will not be distributed proportionately amongst the various types of charitable organizations. Due to differences in preferences for type of charitable organizations between itemizers and non-itemizers, religious charities stand to gain disproportionately under the FairTax, while education, health, and cultural charities will actually suffer a small loss.

Table 14. FairTax Effect on Giving Summary, 2007						
	Current		FairTax		Difference	
Itemizers	145.30	62.60%	120.20	51.33%	(25.10)	-17.27%
Non-Itemizers	86.80	37.40%	113.96	48.67%	27.16	31.29%
Total	232.10	100%	234.16	100%	2.06	0.89%

Due to the FairTax's effect on the price of giving, charitable giving would decrease by 5.24 percent in the first year if we ignored the rise in the income brought about by implementation of the FairTax. However, previous BHI analysis shows that the FairTax would increase GDP by 7.9 percent within 10 years and 10.50 percent within 20 years. This income effect would increase charitable contributions, as we can expect households with increased income to increase their charitable contributions. The increase would outweigh the small decrease in charitable giving due to the FairTax's effect on the price of giving. In Table 14 we summarize the immediate effects of the FairTax in cash contributions by donor type.

In the final analysis, the adoption of the FairTax would not decrease total individual charitable contributions. To the contrary, due to the price and income effects, among its other benefits, the FairTax would induce an increase in charitable contributions, subsequently strengthening the vitality of the charitable organizations that are so instrumental in their role in U.S. society.